

**VILLAGE OF ONEKAMA  
MANISTEE COUNTY, MICHIGAN**

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**AUDIT REPORT WITH REQUIRED  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED FEBRUARY 28, 2006**

**VILLAGE OF ONEKAMA**  
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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Onekama	County Manistee
Fiscal Year End February 28, 2006	Opinion Date August 15, 2006	Date Audit Report Submitted to State August 31, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 12. The audit opinion is UNQUALIFIED.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 946-2300	
Street Address 928 South Garfield Avenue, Suite 3		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Lee W. Torrey, CPA	License Number A 259355

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

Independent Auditor's Report

August 15, 2006

To The Village Council  
Village of Onckama  
Onckama, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Onckama, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Onckama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Onckama, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2006, on our consideration of the Village of Onekama, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 9 and 31 through 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Onekama, Michigan's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*KROGER, VANDEWATER & TORREY, P.C.*

Certified Public Accountants

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
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MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

August 15, 2006

Village Council  
Village of Onekama  
Onekama, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate remaining fund information of the Village of Onekama as of and for the year ended February 28, 2006, which collectively comprise the Village of Onekama's basic financial statements and have issued our report thereon dated August 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Onekama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Onekama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described below:

The Village was in noncompliance with its' operating budget for the General Fund.

This report is intended for the information of the Village Council, management, federal awarding agencies, and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

*Knicker, Vanderwall & Emery, P.C.*

Certified Public Accountants

**VILLAGE OF ONEKAMA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

**Management's Discussion and Analysis**

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

**The Village as a Whole**

**Overview of the Financial Statements**

The Village of Onekama's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

This report includes government-wide statements as required by GASB Statement Number 34. The government-wide financial statements are designed to provide the reader with a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. These statements are presented using a method of accounting that is similar to a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Village include a sewer service.

Revenues by major source compared to last year are as follows:

	<u>2005 - 06</u>	<u>2004 - 05</u>
<b>Governmental Activities:</b>		
Property Taxes	\$ 79,974	\$ 73,561
State-Shared Revenues	100,537	106,222
Total Revenues	205,080	199,222
<b>Business-Type Activities:</b>		
Charges for Services (Sewer)	198,496	140,520
Capital Grants	2,290,900	-

Expenditure by Function with Prior Year Expenses:

	<u>2005 - 06</u>	<u>2004 - 05</u>
<b>Governmental Activities:</b>		
General Government	\$ 70,097	\$ 72,503
Public Safety	1,283	1,416
Public Works	101,515	74,617
Community and Economic Development	1,319	1,469
Recreation and Culture	10,805	8,352
Other	-	17,439
Total	185,019	175,796
<b>Business-Type Activities</b>		
Sewer	\$ 159,236	\$ 109,430

#### **Fund Financial Statements.**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories – governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and use of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing this, readers may better understand the long-term impact of the government's short-term financing decisions. The governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balance for the General Fund, Major Street Fund and Local Street Fund, which are considered to be major funds. Data from the other funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds.** The Village has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for its sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among Village's various functions. The Village uses its internal service fund to charge the costs of equipment used to the individual funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

#### **Notes to the Financial Statements**

The Notes to the basic financial statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The Notes can be found beginning on page 19 of this report.

#### **Government-Wide Financial Analysis**

For the fiscal year ending February 28, 2006, net assets of the village increased by \$2,363,551 to \$3,970,313. This is largely due to the investments in the sewer upgrade, although cash assets also showed substantial increase.

#### **Fund Financial Analysis**

For the fiscal year ending February 28, 2006, the fund balance of the general fund increased by \$14,492 to \$252,286. The major street fund decreased by \$7,450 to \$39,286 (which is approximately one year of reserves). The local street fund balance decreased by \$5,394 to \$40,368 (slightly less than one year's reserve). The non-major governmental funds decreased by \$6,826 to \$9,021. The reduction in various funds reflects the results from the reduction in millage from the maximum of 10 mills to the current 4 mills operating, plus 1 mil for local streets. The fund balance of the sewer fund increased by \$2,340,748 to \$3,272,470, while the fund balance of the internal service fund increased by \$3,591 to \$183,851.

#### **General Fund Budgetary Highlights**

For the fiscal year ending February 28, 2006, total governmental funds ended the year with a fund balance of \$340,961, or a decrease of \$5,178 or 2%. This decrease is the result of a reduction in the millage rate over the past few years from 10 mills to 4 mills, plus 1 mil for local streets. This decrease was intentional in that most of the fund balances had between one and three years of approximately one and one quarter years of fund equity. Total governmental fund equity is still at approximately one and one quarter years.

General fund balance is still at slightly more than two years fund equity. Construction and layout of the new cemetery was completed. A few minor expenses will need to be acted on in the coming year. Complete engineering has been completed on the new park weir. Grant application has been completed and approved. Construction should be completed during the '06 – '07 fiscal year. The Village's share of the grant's co-pay is substantially complete. Once again, income in the General Fund was over-budgeted by \$25,277 – however, spending was \$42,832 less than the amended budget, leaving budgetary fund balance in the General Fund of \$17,555.

#### **Capital Asset & Debt Administration**

The greatest portion of the Village's total assets and debt are in the enterprise/sewer fund. Total net assets of the sewer fund increased from \$931,722 to \$3,272,470, due in large part to the progress being made in the sewer lagoon upgrade. Total debt for the sewer, not counting interest, is \$1,457,000. During the fiscal year '05 – '06, the Village paid down an additional \$134,000 from the 1973 initial bond, leaving a total of \$72,000. In addition, the Improvement and Replacement Restricted Reserves required by the revenue bonds stands at \$130,667.

#### **Economic Factors & Next Year's Budget & Rates**

The sanitary sewer system, by its sheer size, continues to dominate the future of the Village. The upgrade being completed in the fiscal year 2006-2007; leaves us with our greatest assets ever and largest debt. In fiscal 2006-2007, it is the Village's intention to pay off the initial 1973 bond balance of \$72,000, using surplus cash. During the upgrade, the Village purchased land and made improvements to accommodate the inclusion of the Bear Lake/Pleasanton Sewer Authority (BLPSA) into our system. The BLPSA "buy in" would allow the Village to pay off most of the remaining debt, freeing us to be able to reduce rates to sewer users. It appears, unfortunately, that the BLPSA has not garnered enough support to proceed. By early October of 2006, rural development (RD) will decide whether or not to reserve funds for the BLPSA. In the event that BLPSA does not move forward and RD pulls support, it is the intention of the Village to place the surplus land up for sale and use the funds to pay down the existing debt. The remaining holdings would be more than adequate to handle a 50% - 70% increase in sewer equivalents and still allow the Village to reduce rates by almost 35% - 40%.

The Farr Center and the park will need little in capital improvements for the foreseeable future reducing budgetary pressures for several years. There is a new sand storage building, upgraded and renovated equipment and a new tractor. The new cemetery is in place and may require some road paving, and the ongoing yearly street resurfacing should continue.

Onkama Township has passed a new 1-mil road millage of which they will refund to the Village its share. That should allow the future administration to discontinue the 1-mill allocation to streets and since the Village is being supported by the remaining 4 mills, the actual millage assessed on the Village residents could and should be reduced to 4 mills.

#### **Contacting the Village's Managements**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at:

Village of Onkama  
5283 Main Street  
Onkama, Michigan 49675  
(231) 889-3171

**VILLAGE OF ONEKAMA**  
**GOVERNMENTAL WIDE STATEMENTS OF NET ASSETS**  
**FEBRUARY 28, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash	\$ 421,578	\$ 193,513	\$ 615,091
Restricted cash	-	130,667	130,667
Internal balances	(508)	508	-
Due from other governments	24,827	-	24,827
Inventories	-	2,029	2,029
Accounts receivable - other	-	16,978	16,978
Accounts receivable - services	-	16,653	16,653
Total Current Assets	<u>\$ 445,897</u>	<u>\$ 360,348</u>	<u>\$ 806,245</u>
Non-Current Assets			
Capital assets	\$ 258,984	\$ 1,586,685	\$ 1,845,669
Construction in process	-	2,807,384	2,807,384
Total Non-Current Assets	<u>\$ 258,984</u>	<u>\$ 4,394,069</u>	<u>\$ 4,653,053</u>
<b><u>Total Assets</u></b>	<u><u>\$ 704,881</u></u>	<u><u>\$ 4,754,417</u></u>	<u><u>\$ 5,459,298</u></u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	\$ 6,772	\$ 11,507	\$ 18,279
Accrued interest payable	-	9,255	9,255
Deferred revenue	-	3,491	3,491
Payroll taxes payable	960	-	960
Current portion of non-current liabilities	-	32,000	32,000
Total Current Liabilities	<u>\$ 7,732</u>	<u>\$ 56,253</u>	<u>\$ 63,985</u>
Non-Current Liabilities			
Bonds payable	\$ -	\$ 1,425,000	\$ 1,425,000
<b><u>Total Liabilities</u></b>	<u><u>\$ 7,732</u></u>	<u><u>\$ 1,481,253</u></u>	<u><u>\$ 1,488,985</u></u>
<b><u>NET ASSETS</u></b>			
Invested In capital assets - net of debt	\$ 258,984	\$ 2,925,562	\$ 3,184,546
Restricted	-	51,685	51,685
Unrestricted	438,165	295,917	734,082
Total Net Assets	<u>\$ 697,149</u>	<u>\$ 3,273,164</u>	<u>\$ 3,970,313</u>
<b><u>Total Liabilities and Net Assets</u></b>	<u><u>\$ 704,881</u></u>	<u><u>\$ 4,754,417</u></u>	<u><u>\$ 5,459,298</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

Net (Expense) Revenue and Changes  
in Net Assets

Functions/Programs	Program Revenue			Primary Government		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary government:						
General government	\$ 70,097	\$ 1,683	\$ -	\$ -	\$ (68,414)	\$ -
Public safety	1,283	-	-	-	(1,283)	-
Public works	101,515	365	-	-	(101,150)	-
Community and economic development	1,319	-	-	-	(1,319)	-
Recreation and cultural	10,805	-	-	-	(10,805)	-
Other	-	-	-	-	-	-
Total Governmental Activities	\$ 185,019	\$ 2,048	\$ -	\$ -	\$ (182,971)	\$ -
Business-Type Activities:						
Sewer	\$ 159,236	\$ 198,496	\$ -	\$ 2,290,900	\$ -	\$ 2,330,160

**General Revenues:**

Property taxes	\$ 79,974	\$ -	\$ 79,974
State-shared revenues	100,537	-	100,537
Miscellaneous	816	2,050	2,866
Unrestricted investment earnings	5,194	7,271	12,465
Rent and royalty income	18,559	1,961	20,520
Transfers	-	-	-
Total General Revenues and Transfers	\$ 205,080	\$ 11,282	\$ 216,362

**Changes in Net Assets**

	\$ 22,109	\$ 2,341,442	\$ 2,363,551
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Net assets - beginning of year

	\$ 714,441	\$ 931,722	\$ 1,646,163
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Prior period adjustment - Note 12

	(39,401)	-	(39,401)
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Net assets - beginning of year - restated

	\$ 675,040	\$ 931,722	\$ 1,606,762
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**Net Assets - End of Year**

	\$ 697,149	\$ 3,273,164	\$ 3,970,313
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
GOVERNMENTAL FUND BALANCE SHEET  
FEBRUARY 28, 2006**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash	\$ 236,106	\$ 35,935	\$ 39,874	\$ 11,097	\$ 323,012
Due from other funds	4,331	-	730	-	5,061
Due from Other Governments	16,197	5,707	2,924	-	24,828
Accounts receivable - services	-	-	-	-	-
Total Assets	<u>\$ 256,634</u>	<u>\$ 41,642</u>	<u>\$ 43,528</u>	<u>\$ 11,097</u>	<u>\$ 352,901</u>
<b><u>Liabilities</u></b>					
Accounts payable	\$ 3,388	\$ 958	\$ 1,942	\$ 17	\$ 6,305
Due to other funds	-	1,398	1,218	2,059	4,675
Payroll taxes payable	960	-	-	-	960
Total Liabilities	<u>\$ 4,348</u>	<u>\$ 2,356</u>	<u>\$ 3,160</u>	<u>\$ 2,076</u>	<u>\$ 11,940</u>
<b><u>Fund Balance</u></b>					
Unreserved	\$ 252,286	\$ 39,286	\$ 40,368	\$ 9,021	\$ 340,961
Total Fund Balance	<u>\$ 252,286</u>	<u>\$ 39,286</u>	<u>\$ 40,368</u>	<u>\$ 9,021</u>	<u>\$ 340,961</u>
<b><u>Total Liabilities and Fund Balance</u></b>	<u>\$ 256,634</u>	<u>\$ 41,642</u>	<u>\$ 43,528</u>	<u>\$ 11,097</u>	<u>\$ 352,901</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2006**

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Total Fund Balance - Governmental Funds	\$ 340,961
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Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

Capitalized assets used in governmental activities are not  
financial resources and are not reported in  
governmental funds.

Cost of capital Assets	\$ 251,895	
Accumulated depreciation	<u>(78,214)</u>	
		173,681

Internal service funds are used by management to charge  
the cost of equipment used to individual funds. The assets  
and liabilities of the internal service funds are included in  
governmental activities in the Statement of Net Assets

182,507

Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 697,149</u>
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>					
Taxes and penalties	\$ 79,974	\$ -	\$ -	\$ -	\$ 79,974
Licenses and permits	365	-	-	-	365
State grants	50,679	31,945	16,366	1,547	100,537
Charges for services	1,583	-	-	100	1,683
Interest and dividends	3,907	577	621	89	5,194
Rents and royalties	16,598	-	-	1,961	18,559
Miscellaneous	225	-	-	850	1,075
Refunds and rebates	326	-	-	-	326
Sale of property	2,016	-	-	-	2,016
<b>Total Revenues</b>	<b>\$ 155,673</b>	<b>\$ 32,522</b>	<b>\$ 16,987</b>	<b>\$ 4,547</b>	<b>\$ 209,729</b>
<b><u>Expenditures</u></b>					
<b>Current:</b>					
General government	\$ 58,340	\$ -	\$ -	\$ 30,090	\$ 88,430
Public safety	-	-	-	1,283	1,283
Community and economic development	1,319	-	-	-	1,319
Recreation and cultural	22,360	-	-	-	22,360
Public works	24,473	31,986	45,056	-	101,515
<b>Total expenditures</b>	<b>\$ 106,492</b>	<b>\$ 31,986</b>	<b>\$ 45,056</b>	<b>\$ 31,373</b>	<b>\$ 214,907</b>
<b><u>Excess of Revenues Over (Under)</u></b>					
<b><u>Expenditures</u></b>	<b>\$ 49,181</b>	<b>\$ 536</b>	<b>\$ (28,069)</b>	<b>\$ (26,826)</b>	<b>\$ (5,178)</b>
<b><u>Other Financing Sources (Uses)</u></b>					
Transfers in	\$ -	\$ -	\$ 22,675	\$ 20,000	\$ 42,675
Transfers out	(34,689)	(7,986)	-	-	(42,675)
<b>Total other financing sources (uses)</b>	<b>\$ (34,689)</b>	<b>\$ (7,986)</b>	<b>\$ 22,675</b>	<b>\$ 20,000</b>	<b>\$ -</b>
<b><u>Excess of Revenues and Other Sources Over (Under)</u></b>					
<b>Expenditures and Other Uses</b>	<b>\$ 14,492</b>	<b>\$ (7,450)</b>	<b>\$ (5,394)</b>	<b>\$ (6,826)</b>	<b>\$ (5,178)</b>
<b>Fund Balance - Beginning of Year</b>	<b>237,794</b>	<b>46,736</b>	<b>45,762</b>	<b>15,847</b>	<b>346,139</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ 252,286</b>	<b>\$ 39,286</b>	<b>\$ 40,368</b>	<b>\$ 9,021</b>	<b>\$ 340,961</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

Net Change in Fund Balance - Total Governmental Funds	\$	(5,178)
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the asset disposed of (\$2,601), net of any related accumulated depreciation (\$0).

Cost	\$	(2,601)	
Accumulated depreciation		-	
		-	(2,601)

Government funds report outlays for capital assets as expenditures.

In the Statement of Activities these assets are depreciated over their estimated useful lives.

Depreciation	\$	(9,230)	
Capital Outlay		36,221	
		26,991	26,991

Internal Service Funds are used by management to charge the cost of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.

		2,897
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Changes in Net Assets-Governmental Activities	\$	22,109
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
PROPRIETARY FUND STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 193,513	\$ 98,566
Restricted Cash	130,667	-
Receivables	33,631	-
Inventories	2,029	-
Due from other funds	-	1,289
Total Current Assets	<u>\$ 359,840</u>	<u>\$ 99,855</u>
<b>Non-Current Assets:</b>		
Capital Assets	\$ 1,586,685	\$ 85,303
Construction in Process	2,807,384	-
Total Non-Current Assets	<u>\$ 4,394,069</u>	<u>\$ 85,303</u>
<b>Total Assets</b>	<u><u>\$ 4,753,909</u></u>	<u><u>\$ 185,158</u></u>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 11,507	\$ 467
Due to other funds	186	840
Accrued Interest Payable	9,255	-
Deferred Revenue	3,491	-
Current Portion of Non-Current Liabilities	32,000	-
Total Current Liabilities	<u>\$ 56,439</u>	<u>\$ 1,307</u>
<b>Non-Current Liabilities:</b>		
Bonds Payable	<u>\$ 1,425,000</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<u><u>\$ 1,481,439</u></u>	<u><u>\$ 1,307</u></u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	\$ 2,925,562	\$ 85,303
Restricted for Debt Service	51,685	-
Unrestricted	295,223	98,548
Total Net Assets	<u>\$ 3,272,470</u>	<u>\$ 183,851</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,753,909</u></u>	<u><u>\$ 185,158</u></u>
<b>Total Net Assets</b>	\$ 3,272,470	\$ 183,851
Adjustments to reflect the consolidation of internal service fund activities related to the enterprise fund - current year	694	(694)
- prior year	<u>-</u>	<u>(650)</u>
<b>Net Assets of Business-Type Activities</b>	<u><u>\$ 3,273,164</u></u>	<u><u>\$ 182,507</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET**  
**ASSETS FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 198,496	\$ 31,597
<b><u>Operating Expenses</u></b>		
Personal services	\$ 12,884	\$ 1,703
Professional services	3,760	125
Utilities	11,053	3,204
Repairs and maintenance	20,937	4,977
Equipment rental	6,103	-
Other supplies and expenses	15,883	9,235
Depreciation	36,032	9,110
Total operating expenses	\$ 106,652	\$ 28,354
Operating income (loss)	\$ 91,844	\$ 3,243
<b><u>Non-Operating Revenues (Expenses)</u></b>		
Grant revenue	\$ 2,290,900	\$ -
Royalty income	1,961	-
Other income	2,050	-
Interest income	7,271	348
Interest expense	(53,278)	-
Total non-operating revenue (expense)	\$ 2,248,904	\$ 348
Income (loss) before transfers	\$ 2,340,748	\$ 3,591
Transfers in	\$ -	\$ -
<b>Change in Net Assets</b>	\$ 2,340,748	\$ 3,591
Total Net Assets - Beginning of Year	931,722	180,260
<b>Total Net Assets - End of Year</b>	\$ 3,272,470	\$ 183,851
Changes in net assets	\$ 2,340,748	\$ 3,591
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	694	(694)
Change in Net Assets of Business-Type Activities	\$ 2,341,442	\$ 2,897

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
PROPRIETARY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>Cash Flows From Operation Activities</u></b>		
Receipts From Customers	\$ 178,009	\$ -
Cash Receipts from Interfund Services	-	31,597
Payments to Suppliers	(352,528)	(16,667)
Cash Payments for Interfund Services	-	-
Payments to Employees	(11,969)	(1,582)
Receipts from oil and gas royalties	1,961	-
Other Receipts (Payments)	2,050	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (182,477)</u>	<u>\$ 13,348</u>
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>		
Transfers From Other Funds	<u>\$ -</u>	<u>\$ -</u>
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>		
Grant revenue	\$ 2,290,900	\$ -
Proceeds from issuance of revenue bonds	1,229,000	-
Purchase of Capital Assets	(3,071,784)	\$ -
Principal and Interest Paid on Capital Debt	(191,278)	-
Other Receipts (Payments)	-	-
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>\$ 256,838</u>	<u>\$ -</u>
<b><u>Cash Flows From Investing Activities</u></b>		
Interest Income	\$ 7,271	\$ 348
Net Cash Provided by Investing Activities	<u>\$ 7,271</u>	<u>\$ 348</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	<u>\$ 81,632</u>	<u>\$ 13,696</u>
Cash - Beginning of Year	<u>242,548</u>	<u>84,870</u>
<b><u>Cash - End of Year</u></b>	<u><u>\$ 324,180</u></u>	<u><u>\$ 98,566</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Village of Onekama conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

**Reporting Entity**

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Onekama. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

**Accounting Change**

Effective March 1, 2004, the Village implemented the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

1. A management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.
2. Village-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
3. The fund financial statements focus on major funds rather than fund types.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Government-Wide and Fund Financial Statements – continued**

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31<sup>st</sup>.

Although the Village's 2006 ad valorem tax is levied and collectible on July 1, 2005, it is the Village's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Village totaled \$14,689,036, on which ad valorem taxes levied consisted of 5 mills for the Village operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Local Street Funds account for the resources of state gas and weight tax revenues that are restricted for use on major and local streets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the government reports the following fund type:

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 31, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Village Council approved its' original budgets on February 10, 2005, and then made their final supplemental budgetary appropriations on February 9, 2006.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Public hearings are conducted at the Village office to obtain taxpayer comments.
- b. No later than February, the budget is legally enacted through passage of a resolution.
- c. Supplemental appropriations, when required to provide additional expenditures are matched by additional anticipated revenue or an appropriations of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Local Governmental Unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund - Clerk	\$ 13,368	\$ 13,397
General Fund - Parks	21,180	22,360
General Fund - Cemetery Transfer Out	14,000	20,000

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Village of Onekama to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village of Onekama is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council has designated five banks for the deposit of the Village funds. The investment policy was adopted by the board in accordance with Public Act 196 of 1997.

At year end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 421,578	\$ 193,513	\$ 615,091
Restricted Cash	-	130,667	130,667
Total	<u>\$ 421,578</u>	<u>\$ 324,180</u>	<u>\$ 745,758</u>

The bank balance of the primary government's deposits is \$751,712 of which \$654,444 is covered by federal depository insurance.

**NOTE 4 - RECEIVABLES**

Receivables as of year-end for the government's individual major and nonmajor funds, and the internal service including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sewer</u>	<u>Non-Major and Other Funds</u>	<u>Total</u>
Accounts Receivable	\$ -	\$ -	\$ -	\$ 13,226	\$ -	\$ 13,226
Intergovernmental	16,197	5,707	2,924	-	-	24,828
Accounts receivable - other	-	-	-	16,978	-	16,978
Net Receivables	<u>\$ 16,197</u>	<u>\$ 5,707</u>	<u>\$ 2,924</u>	<u>\$ 30,204</u>	<u>\$ -</u>	<u>\$ 55,032</u>

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 44,203	\$ -	\$ 2,602	\$ 41,601
Capital Assets Being Depreciated:				
Buildings	\$ 135,839	\$ 1,650	\$ -	\$ 137,489
Land improvements	-	25,913	-	25,913
Machinery and Equipment	245,161	8,658	-	253,819
Subtotal	\$ 381,000	\$ 36,221	\$ -	\$ 417,221
Less: Accumulated Depreciation for:				
Buildings	\$ (54,480)	\$ (3,510)	\$ -	\$ (57,990)
Land improvements	-	(2,699)	-	(2,699)
Machinery and Equipment	(127,019)	(12,130)	-	(139,149)
Subtotal	\$ (181,499)	\$ (18,339)	\$ -	\$ (199,838)
Net Capital Assets Being Depreciated	\$ 199,501	\$ 17,882	\$ -	\$ 217,383
Governmental Activities Capital Total:				
Capital Assets - Net of Depreciation	\$ 243,704	\$ 17,882	\$ 2,601	\$ 258,984

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**NOTE 5 - CAPITAL ASSETS – continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 64,700	\$ 727,090	\$ -	\$ 791,790
Construction in Progress	477,573	2,329,811	-	2,807,384
 Subtotal	 \$ 542,273	 \$ 3,056,901	 \$ -	 \$ 3,599,174
 <b>Capital Assets Being Depreciated:</b>				
Sewer System	\$ 1,613,643	\$ 14,882	\$ -	\$ 1,628,526
 <b>Less: Accumulated Depreciation for:</b>				
Sewer System	\$ (797,598)	\$ (36,032)	\$ -	\$ (833,631)
 Net Capital Assets Being Depreciated:	 \$ 816,045	 \$ (21,150)	 \$ -	 \$ 794,895
 <b>Governmental Activities Capital Total:</b>				
Capital Assets - Net of Depreciation	\$ 1,358,318	\$ 3,035,751	\$ -	\$ 4,394,069

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental Activities:</b>	
General Government	\$ 6,767
Recreation and Culture	2,463
Internal Service Fund Depreciation is Charged to the Various Functions Based on Their Usage of the Assets	 9,110
 Total Governmental Activities	 <u>\$ 18,340</u>
 <b>Business-Type Activities:</b>	
Sewer	<u>\$ 36,032</u>

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**NOTE 5 - CAPITAL ASSETS – continued**

**Construction Commitments** – The government has an active construction project at year-end. At year-end the government's commitment with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Sewer Project	<u>\$ 3,549,356</u>	<u>\$ 197,964</u>

The contract for the sewer project was not signed until May 12, 2005. Total contract price is \$3,747,320.

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due To/From Other Funds</b>		
General	Sewer	\$ 733
	Cemetery	1,941
	Liquor	118
	Local Street	464
	Major Street	235
	Equipment	840
Local Street	Major Street	730
Equipment	Major Street	432
	Local Street	754
	Sewer	103
<b>Total</b>		<u><u>\$ 6,350</u></u>

**VILLAGE OF ONEKAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - continued**

**Interfund Transfers**

	Transfers (Out)		
	General Fund	Major Street Fund	Total
Transfers In			
Local Street	\$ 14,689	\$ 7,986	\$ 22,675
Cemetery	20,000	-	20,000
Total	<u>\$ 34,689</u>	<u>\$ 7,986</u>	<u>\$ 42,675</u>

**NOTE 7 - LEASES**

The Village has entered into contracts with several local oil and gas companies and has leased some park, cemetery, and other properties and portions of streets and alleys to these companies for mineral rights. The Village currently receives oil and gas royalties from these properties.

**NOTE 8 – LONG-TERM DEBT**

Bond activity is summarized as follows:

	Interest Rate	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-Type Activities:						
1973 Sewage Bond	5 %	\$ 206,000	\$ -	\$ (134,000)	\$ 72,000	\$ 28,000
1996 Sewage Bond	5 %	160,000	-	(2,000)	158,000	2,000
2005A Sewage Bond	3.25 %	-	640,000	(1,000)	639,000	1,000
2005B Sewage Bond	4.25 %	-	589,000	(1,000)	588,000	1,000
		<u>\$ 366,000</u>	<u>\$ 1,229,000</u>	<u>\$ (138,000)</u>	<u>\$ 1,457,000</u>	<u>\$ 32,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year-End February 28,	Business-Type Activities	
	Principal	Interest
2007	32,000	57,528
2008	32,000	55,683
2009	20,000	54,108
2010	4,000	52,958
2011-2015	79,000	257,415
2016-2020	135,000	233,404
2021-2025	159,000	203,879
2026-2030	189,000	169,007
2031-2035	228,000	127,023
2036-2040	268,000	78,707
2041-2045	311,000	23,902
	<u>1,457,000</u>	<u>1,366,747</u>

The Village is in compliance with the bond ordinance's bond reserve requirements.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**NOTE 9 – RESTRICTED ASSETS**

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue Bond Restrictions:

Improvement and Replacement Account	\$ 78,982
Bond Reserve	<u>51,685</u>
 Total Restricted Assets	 <u>\$ 130,667</u>

**NOTE 10 – RISK MANAGEMENT**

The Village is exposed to various risks of loss related to; thefts of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The Village is insured through the Michigan Township Participating Plan which is a public risk pool currently operating as a common risk management and insurance program for Michigan Municipalities. The Village pays an annual premium to the Michigan Township Participating Plan for its insurance coverage. The Village has general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate. Property insurance provides for a \$100 deductible. Settled claims have not exceeded their coverage in any of the past years.

**NOTE 11 – USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

Beginning net assets and invested in capital assets fund balance have been adjusted for a previous years' error in reporting capital assets. In prior years, a sand storage building was listed twice on the depreciation lapse schedule, creating an overstatement in capital assets. The beginning invested in capital assets balance reflects an adjustment of \$39,401, which is the original purchase price less two years worth of depreciation. Prior years' net income would have been understated in fiscal year 2004 by \$406 and fiscal year 2005 by \$812.

**REQUIRED SUPPLEMENTAL INFORMATION**

**VILLAGE OF ONEKAMA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of year fund balance	\$ 237,794	\$ 237,794	\$ 237,794	\$ -
<b><u>Resources (Inflows)</u></b>				
Taxes and penalties	\$ 87,400	\$ 87,400	\$ 79,974	\$ (7,426)
Licenses and permits	300	400	365	(35)
State grants	50,000	60,000	50,679	(9,321)
Charges for services	900	900	1,583	683
Interest and dividends	4,000	5,000	3,907	(1,093)
Rents and royalties	9,500	21,500	16,598	(4,902)
Miscellaneous	-	250	225	(25)
Refunds and rebates	4,000	4,000	326	(3,674)
Library/Rent and utilities	1,200	1,500	-	(1,500)
Sale of property	-	-	2,016	2,016
Amounts available for appropriation	<u>\$ 157,300</u>	<u>\$ 180,950</u>	<u>\$ 155,673</u>	<u>\$ (25,277)</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
General government:				
Village council	\$ 28,750	\$ 29,200	\$ 21,417	\$ 7,783
Elections	-	-	-	-
Clerk	13,368	13,368	13,397	(29)
Treasurer	7,610	7,610	6,947	663
Building and grounds	16,480	20,540	16,579	3,961
Community and economic development:				
Zoning	1,865	1,865	1,319	546
Recreation and cultural:				
Park facilities	11,650	21,180	22,360	(1,180)
Other:				
Public works wages	30,000	30,000	6,822	23,178
Liquor control wages	1,200	1,500	-	1,500
Payroll taxes	3,000	3,000	521	2,479
Insurance	9,000	9,500	6,580	2,920
Miscellaneous	3,700	3,950	1,588	2,362
Street lights	9,300	10,300	8,962	1,338
Transfers out:				
Internal service fund	3,000	3,000	-	3,000
Local street fund	15,000	15,000	14,689	311
Cemetery fund	-	14,000	20,000	(6,000)
Total charges to appropriations	<u>\$ 153,923</u>	<u>\$ 184,013</u>	<u>\$ 141,181</u>	<u>\$ 42,832</u>
Budgetary Fund Balance - End of Year	<u>\$ 241,171</u>	<u>\$ 234,731</u>	<u>\$ 252,286</u>	<u>\$ 17,555</u>

**VILLAGE OF ONEKAMA  
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$ 46,736	\$ 46,736	\$ 46,736	\$ -
<b><u>Resources (Inflows)</u></b>				
State grants	\$ 31,000	\$ 33,000	\$ 31,945	\$ (1,055)
Interest	300	600	577	(23)
Amounts available for appropriation	\$ 31,300	\$ 33,600	\$ 32,522	\$ (1,078)
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public works:				
Highways and streets	\$ 39,100	\$ 39,300	\$ 31,986	\$ 7,314
Transfers out:				
Local street fund	8,000	9,000	7,986	1,014
Total charges to appropriations	\$ 47,100	\$ 48,300	\$ 39,972	\$ 8,328
Budgetary Fund Balance - End of Year	\$ 30,936	\$ 32,036	\$ 39,286	\$ 7,250

**VILLAGE OF ONEKAMA  
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$ 45,762	\$ 45,762	\$ 45,762	\$ -
<b><u>Resources (Inflows)</u></b>				
State grants	\$ 18,500	\$ 18,500	\$ 16,366	\$ (2,134)
Interest	250	600	621	21
Transfers in:				
General fund	15,000	15,000	14,689	(311)
Major street fund	8,000	9,000	7,986	(1,014)
Amounts available for appropriation	\$ 41,750	\$ 43,100	\$ 39,662	\$ (3,438)
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public works:				
Highways and streets	\$ 48,100	\$ 48,600	\$ 45,056	\$ 3,544
Total charges to appropriations	\$ 48,100	\$ 48,600	\$ 45,056	\$ 3,544
Budgetary Fund Balance- End of Year	<u>\$ 39,412</u>	<u>\$ 40,262</u>	<u>\$ 40,368</u>	<u>\$ 106</u>

### **ADDITIONAL INFORMATION**

**VILLAGE OF ONEKAMA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
FEBRUARY 28, 2006**

	<u>Liquor Fund</u>	<u>Cemetery Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash	\$ 2,271	\$ 8,826	\$ 11,097
Due from other funds	-	-	-
Due from other governments	-	-	-
Interest receivable	-	-	-
Franchise fee receivable	-	-	-
Total Assets	<u>\$ 2,271</u>	<u>\$ 8,826</u>	<u>\$ 11,097</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ -	\$ 17	\$ 17
Due to other funds	118	1,941	2,059
Payroll taxes payable	-	-	-
Total Liabilities	<u>\$ 118</u>	<u>\$ 1,958</u>	<u>\$ 2,076</u>
<b><u>FUND BALANCE</u></b>			
Unreserved	\$ 2,153	\$ 6,868	\$ 9,021
Total fund balance	<u>\$ 2,153</u>	<u>\$ 6,868</u>	<u>\$ 9,021</u>
<b><u>Total Liabilities and Fund Balance</u></b>	<u>\$ 2,271</u>	<u>\$ 8,826</u>	<u>\$ 11,097</u>

**VILLAGE OF ONEKAMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	<u>Liquor Fund</u>	<u>Cemetery Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>			
State grants	\$ 1,547	\$ -	\$ 1,547
Charges for services	-	100	100
Interest	10	79	89
Rents and royalties	-	1,961	1,961
Miscellaneous	-	850	850
Total Revenues	<u>\$ 1,557</u>	<u>\$ 2,990</u>	<u>\$ 4,547</u>
<b><u>Expenditures</u></b>			
General government	\$ -	\$ 30,090	\$ 30,090
Public safety	1,283	-	1,283
Total Expenditures	<u>\$ 1,283</u>	<u>\$ 30,090</u>	<u>\$ 31,373</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>\$ 274</u>	<u>\$ (27,100)</u>	<u>\$ (26,826)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	\$ -	\$ 20,000	\$ 20,000
Transfers out	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>
<b><u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u></b>	<u>\$ 274</u>	<u>\$ (7,100)</u>	<u>\$ (6,826)</u>
Fund Balance - Beginning of Year	<u>1,879</u>	<u>13,968</u>	<u>15,847</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 2,153</u></u>	<u><u>\$ 6,868</u></u>	<u><u>\$ 9,021</u></u>

**SINGLE AUDIT REPORTS**

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 15, 2006

Village Council  
Village of Onekama  
Onekama, Michigan

**Compliance**

We have audited the compliance of the Village of Onekama with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended February 28, 2006. The Village of Onekama's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Village of Onekama's management. Our responsibility is to express an opinion on the Village of Onekama's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Onekama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Village of Onekama's compliance with those requirements.

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Village of Onekama  
August 15, 2006

In our opinion, the Village of Onekama complied, in all material aspects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2006.

### **Internal Control Over Compliance**

The management of the Village of Onekama is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Onekama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KRICHER, VANOURCARE & TERRY, P.C.

Certified Public Accountants

**VILLAGE OF ONEKAMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

<b><u>Federal Grantor/Pass-Through Grantor/Program</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Entity Identifying Number</u></b>	<b><u>Federal Expenditures</u></b>
Water & Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 3,071,784
Total Expenditures of Federal Awards			<u>\$ 3,071,784</u>

**VILLAGE OF ONEKAMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

**Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Village of Onekama.
2. No reportable conditions relating to the audit of the financial statements were found.
3. No instances of noncompliance material to the financial statements of the Village of Onekama were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award program are reported.
5. The auditor's report on compliance for Water and Waste Disposal System for Rural Communities expressed an unqualified opinion.
6. There were no audit findings for the major federal award program.
7. The program tested as a major program is as follows:

Water and Waste Disposal System Systems for Rural Communities	CFDA-10.760
--	-------------
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Village of Onekama did not qualify as a low-risk auditee.

**Findings - Financial Statements Audit**

None

**Findings and Questioned Cost - Major Federal Award Programs Audit**

None

**KALCHER  
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& TORREY, P.C.**  
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TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

## FILE COPY

August 15, 2006

To the Village Council  
Village of Onekama  
Onkama, Michigan 49660

In planning and performing our audit of the financial statements of the Village of Onkama, for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accounts. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Onkama's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

### **Sewer Collection and Billing Procedures**

The total billing and collection process is being performed by one individual. The duties of this function should be separated and overseen/reviewed to ensure proper internal control. This is a repeat comment from the previous year, but given the level of staffing in the Village office, this will most likely be an internal control weakness until staffing levels increase.

### **Accounts Payable**

As in previous years, invoices are not currently being entered into the accounting system on a consistent basis. Village staff have started to enter invoices as they are received, but need to continue this process until the system is totally up and running. Accounts payable for all funds should be treated the same and reviewed on a monthly basis with comparisons to actual payments to vendors.

### **Supply Inventory**

The Village completed an inventory of supplies on hand at the end of its fiscal year ended February 28, 2005, in anticipation of the GASB 34 conversion. This inventory count was not completed timely for the fiscal year ended February 28, 2006. A complete supply inventory should now be taken at the end of each fiscal year.

Page 2

August 15, 2006

This report is intended for the information and use of the Village Council and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

~~KNOX, VANDEWAL & JONES~~, P.C.

Certified Public Accountants